

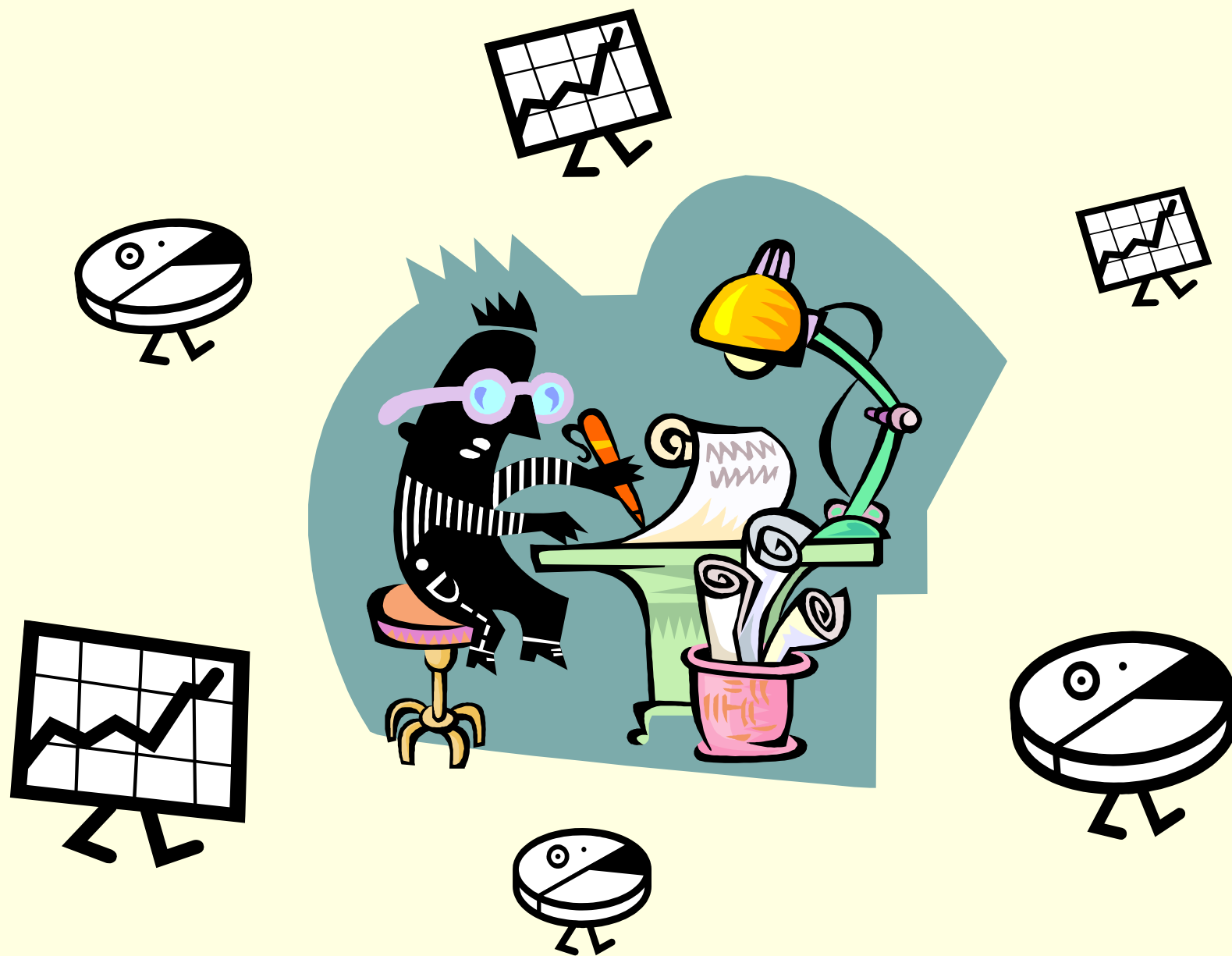
**Auditor of State
David A. Vaudt**

Budgeting - Iowa's Future

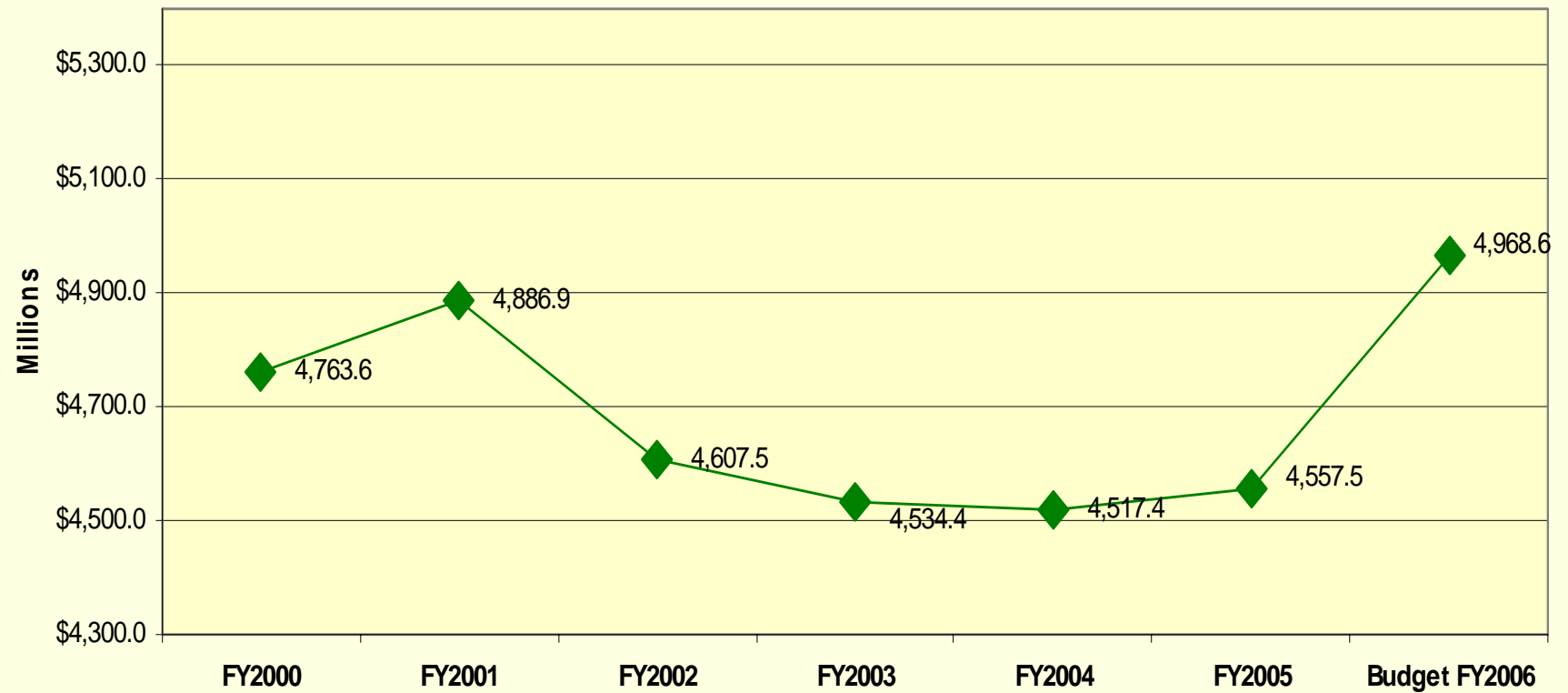
July 2006

Presentation Objectives

- General Fund Budget History:
 - Lack of Clarity
 - “Balanced” Budgets
 - Spending Limitation of 99%
 - Lack of Longer-Range Focus
- FY2007 General Fund Budget
- Auditor Vaudt’s Recommendations
- Questions and Answers Session



State of Iowa General Fund Budget Expenditures Lack of Clarity



State of Iowa
General Fund Budget
Lack of Clarity
FY2006 Expenditure Shifts
(\$ in Millions)

	<u>Budget FY2006</u>
Expenditure shifts:	
FY2005 surplus -	\$159.6(A)
For Property Tax Credits	
Senior Living Trust Fund	108.7
For Medicaid	
Tobacco Related Funds -	68.5
For Medicaid, Substance Abuse, Debt Service	
Hospital Trust Fund -	22.9
For Medicaid	
Environment First Fund -	7.5
For Soil Conservation, Park Operations	
Rebuild Iowa Infrastructure Fund -	____.5
For Aviation Improvement	
	<u>\$367.7</u>

(A) From prior year projected surplus - same impact as appropriation from
Cash Reserve Fund/Economic Emergency Fund/Senior Living Trust Fund

State of Iowa General Fund Budget Lack of Clarity (\$ in Millions)

	<u>Expenditures</u>	<u>Expenditures Shifted</u>		<u>"True Total Expenditures"</u>
		<u>Amount</u>	<u>%</u>	
FY2000	\$ 4,763.6	-	-	\$ 4,763.6
FY2001	\$ 4,886.9	\$ 86.1	1.8	\$ 4,973.0
FY2002	\$ 4,607.5	\$ 265.8	5.8	\$ 4,873.3
FY2003	\$ 4,534.4	\$ 316.5	7.0	\$ 4,850.9
FY2004	\$ 4,517.4	\$ 258.8	5.7	\$ 4,776.2
FY2005	\$ 4,557.5 (A)	\$ 430.0	9.4	\$ 4,987.5
Budget FY2006	\$ 4,968.6 (B)	\$ 367.7	7.4	\$ 5,336.3

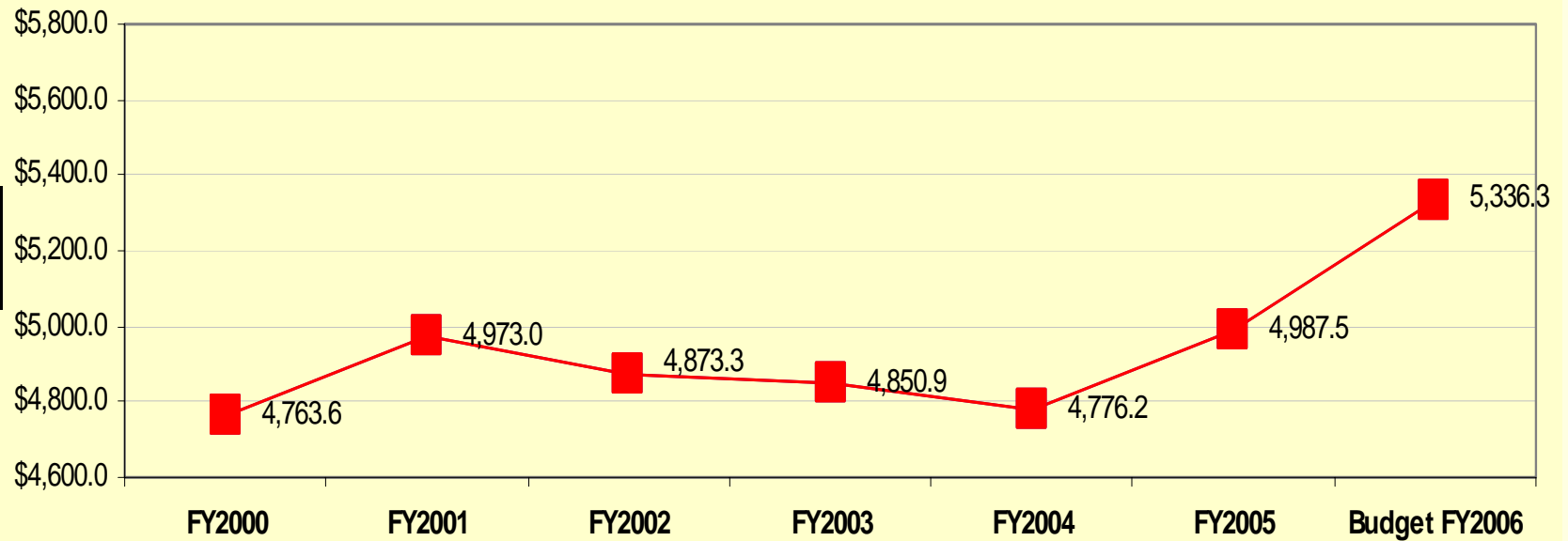
(A) Excludes \$45.6 million Cash Reserve Fund repayment.

(B) Includes estimated Medicaid supplemental of \$30 million at time budget was adopted.

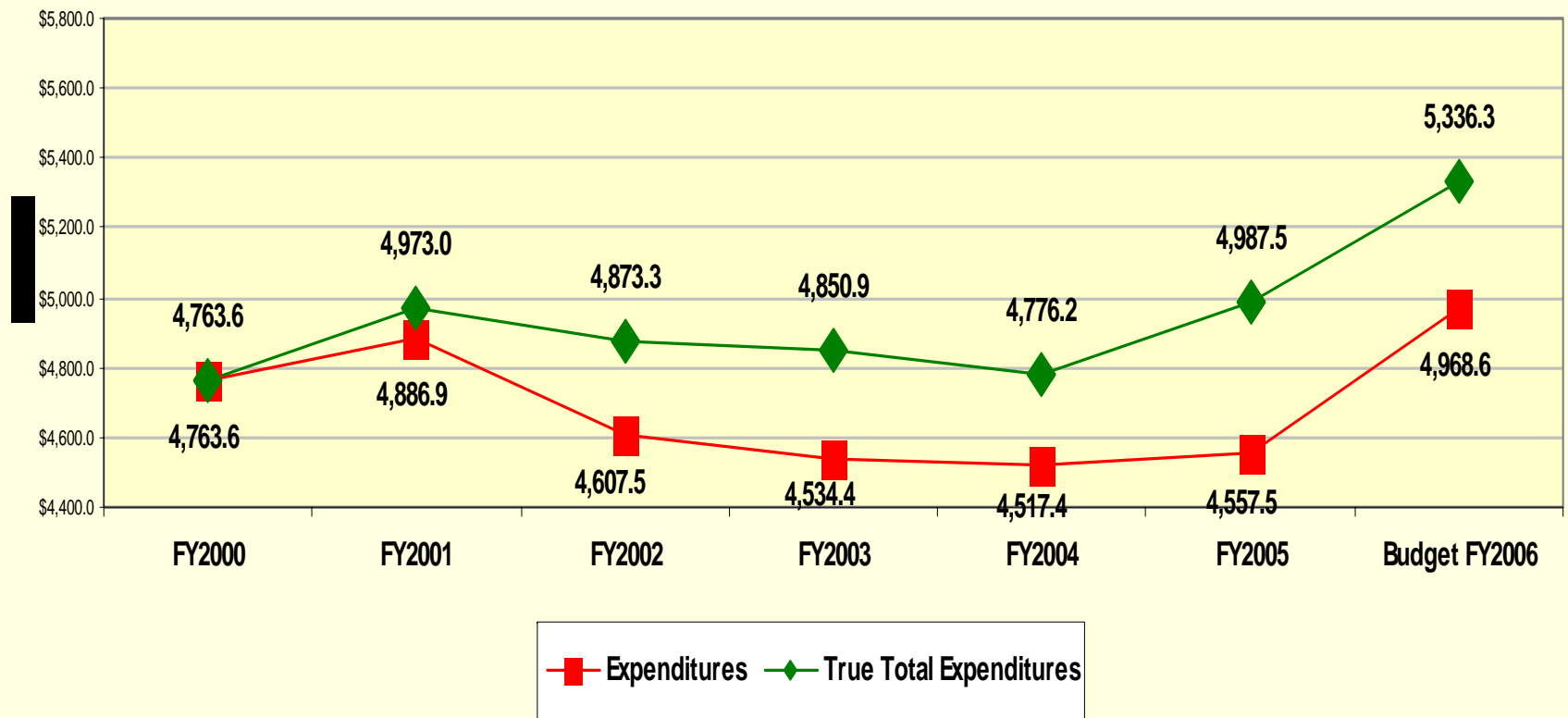
State of Iowa
General Fund Budget
Lack of Clarity
(\$ in Millions)

	<u>Expenditures</u>	<u>"True Total Expenditures"</u>
FY2006 v. FY2000	<u>\$ 205.0</u>	<u>\$ 572.7</u>
Percentage	<u>4.3%</u>	<u>12.0%</u>

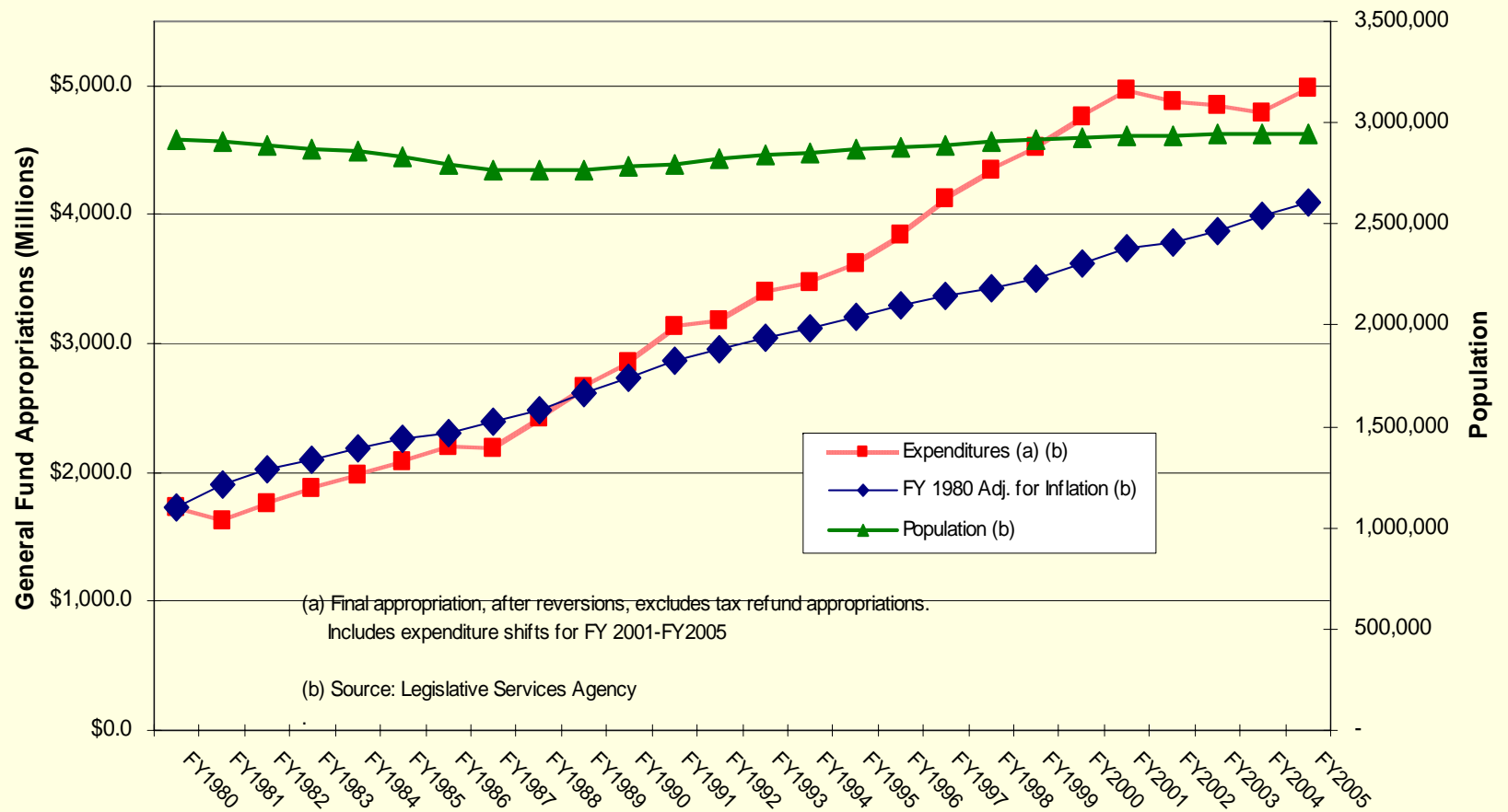
State of Iowa General Fund Budget "True Total Expenditures" Lack of Clarity



State of Iowa General Fund Budget Lack of Clarity



State of Iowa General Fund Expenditures, Inflation, and Population



State of Iowa General Fund Expenditures

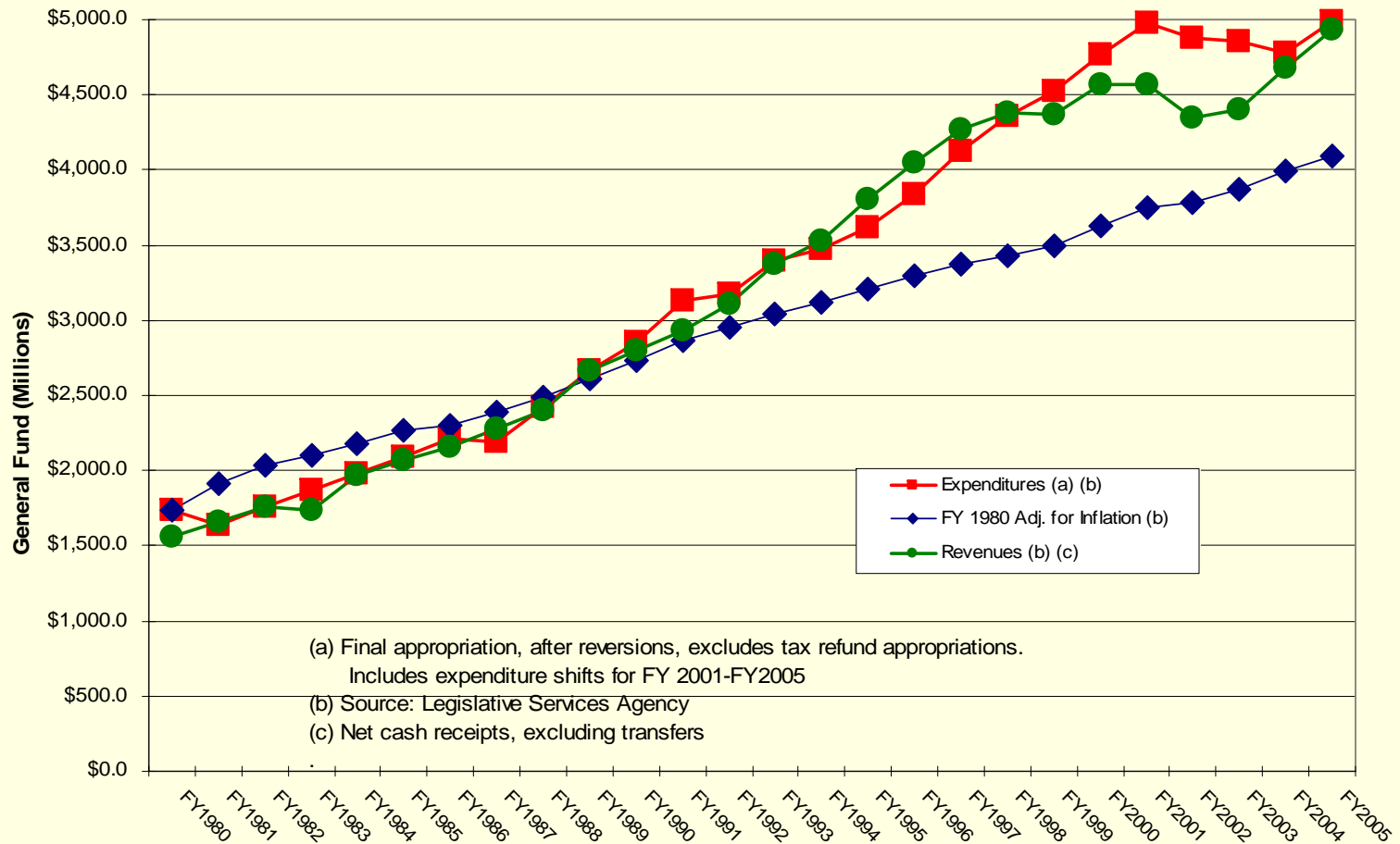
FY1980 to FY2005

Inflation 136.0%

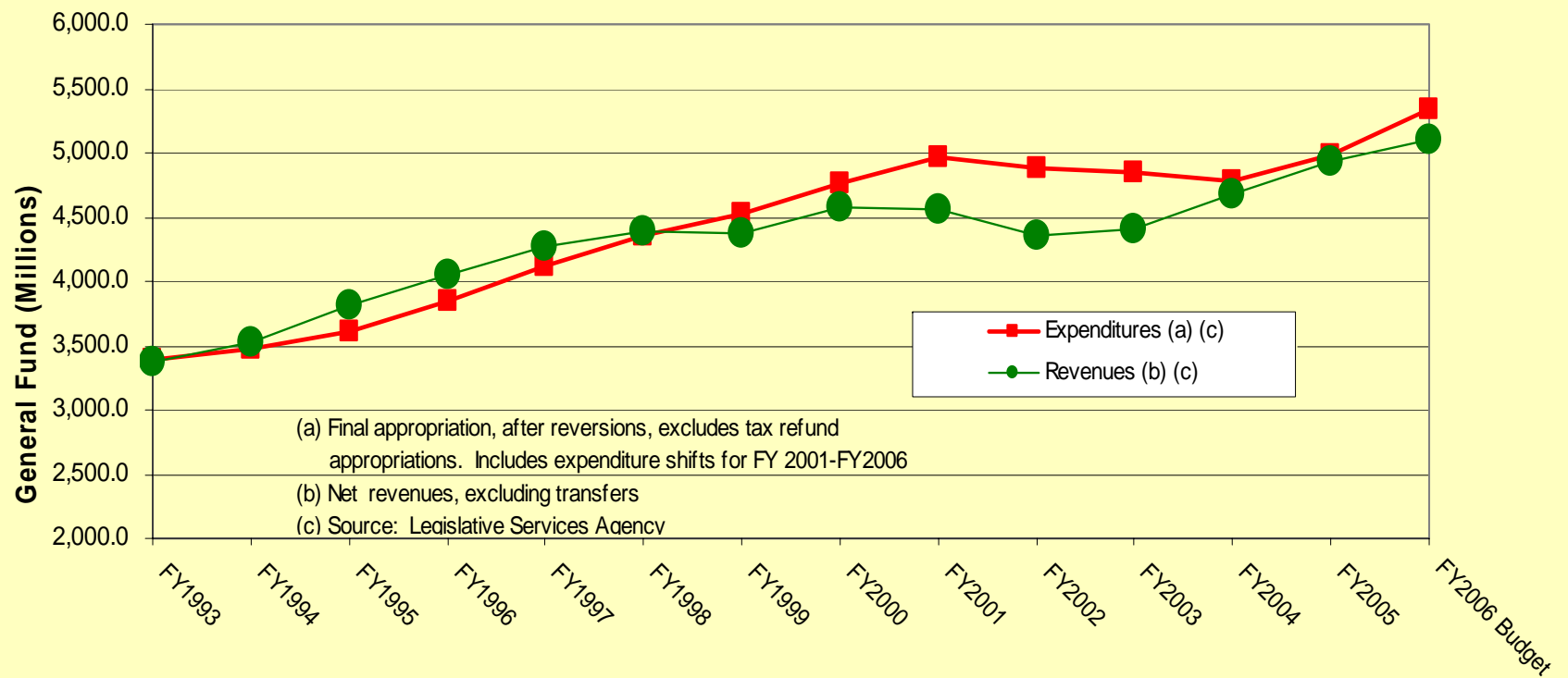
“True Total Expenditures” 187.7%

The expenditure growth of last few years
is not sustainable.

State of Iowa General Fund Expenditures, Inflation, and Revenues



State of Iowa General Fund Spending Exceeds Revenues



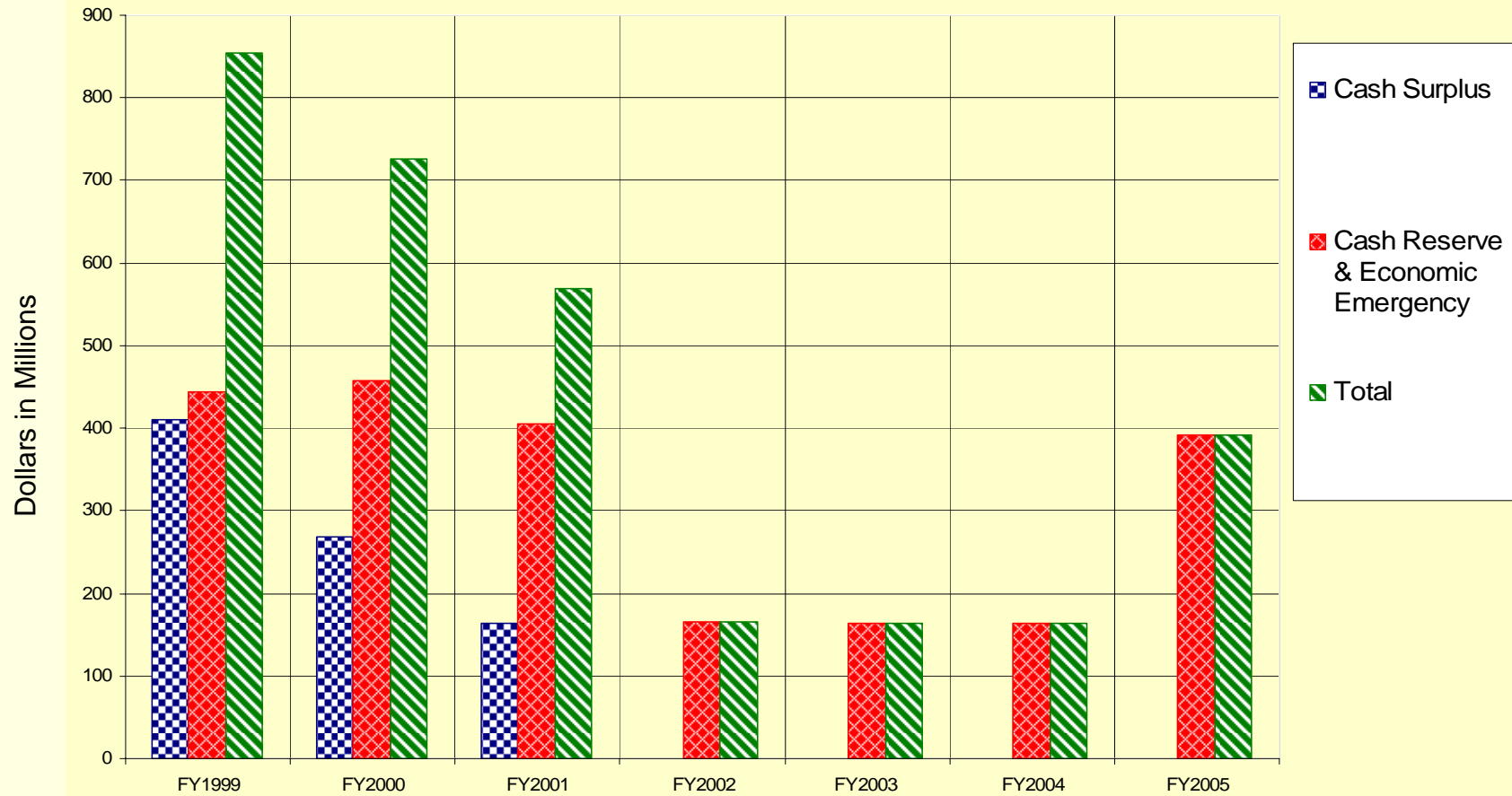
State of Iowa Breakdown of Iowa's Population

	<u>1980</u>	<u>2001</u>
Age 0-19	32%	28%
Age 20-64	55%	57%
Age 65+	13%	15%
Total	2,914,019	2,931,758

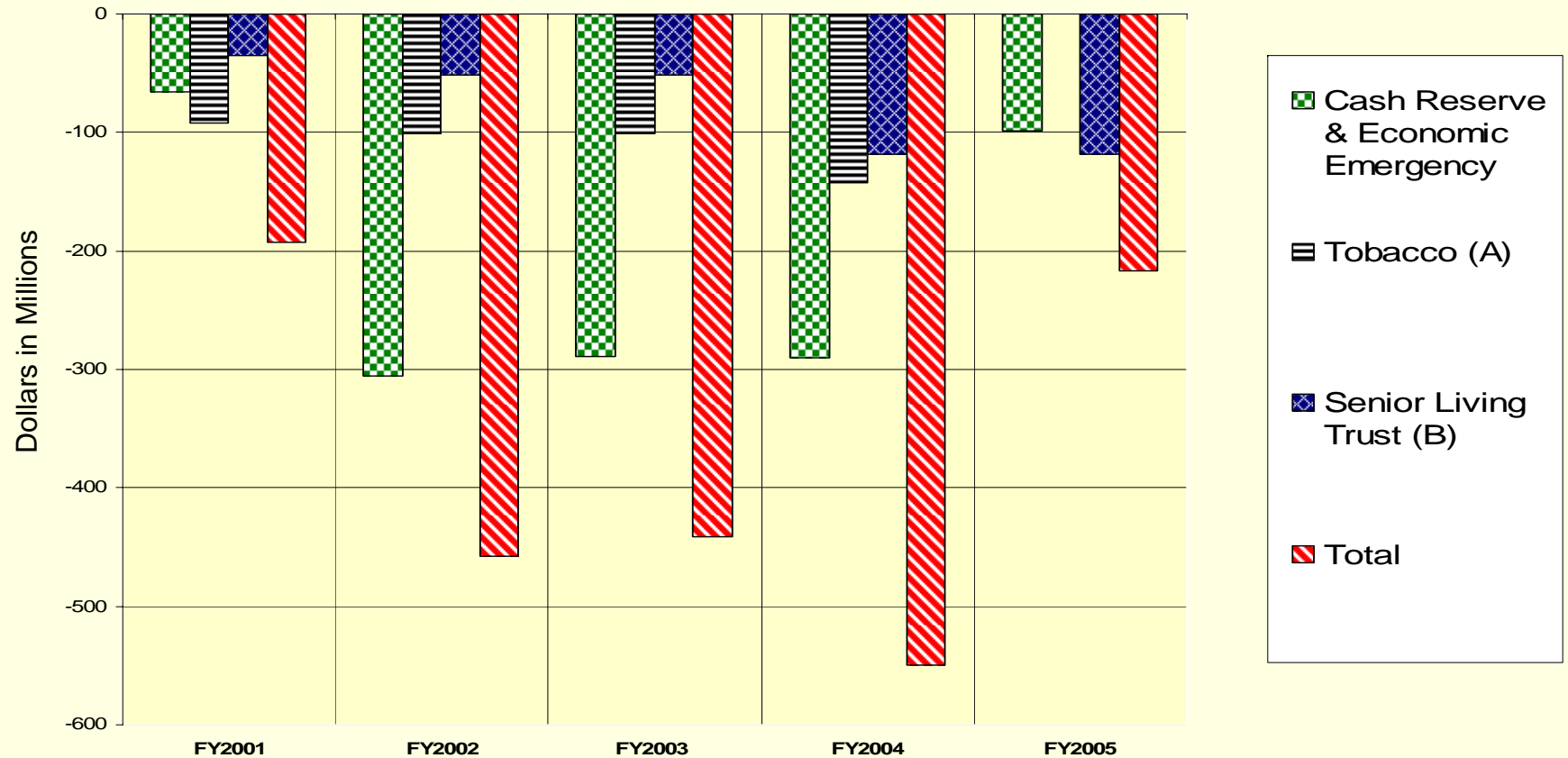
State of Iowa General Fund “Balanced” Budgets

- The key is how
 - Depleted cash surplus
 - Raided other funds and special accounts
 - Committed to repay certain amounts
 - Not addressed repayment for other amounts
- We cannot continue to make budget decisions in a “one-year vacuum” without considering the long-term impact.
- Iowa’s lack of a longer-range focus has severely impacted our financial condition.

State of Iowa General Fund Cash Surplus and Reserves

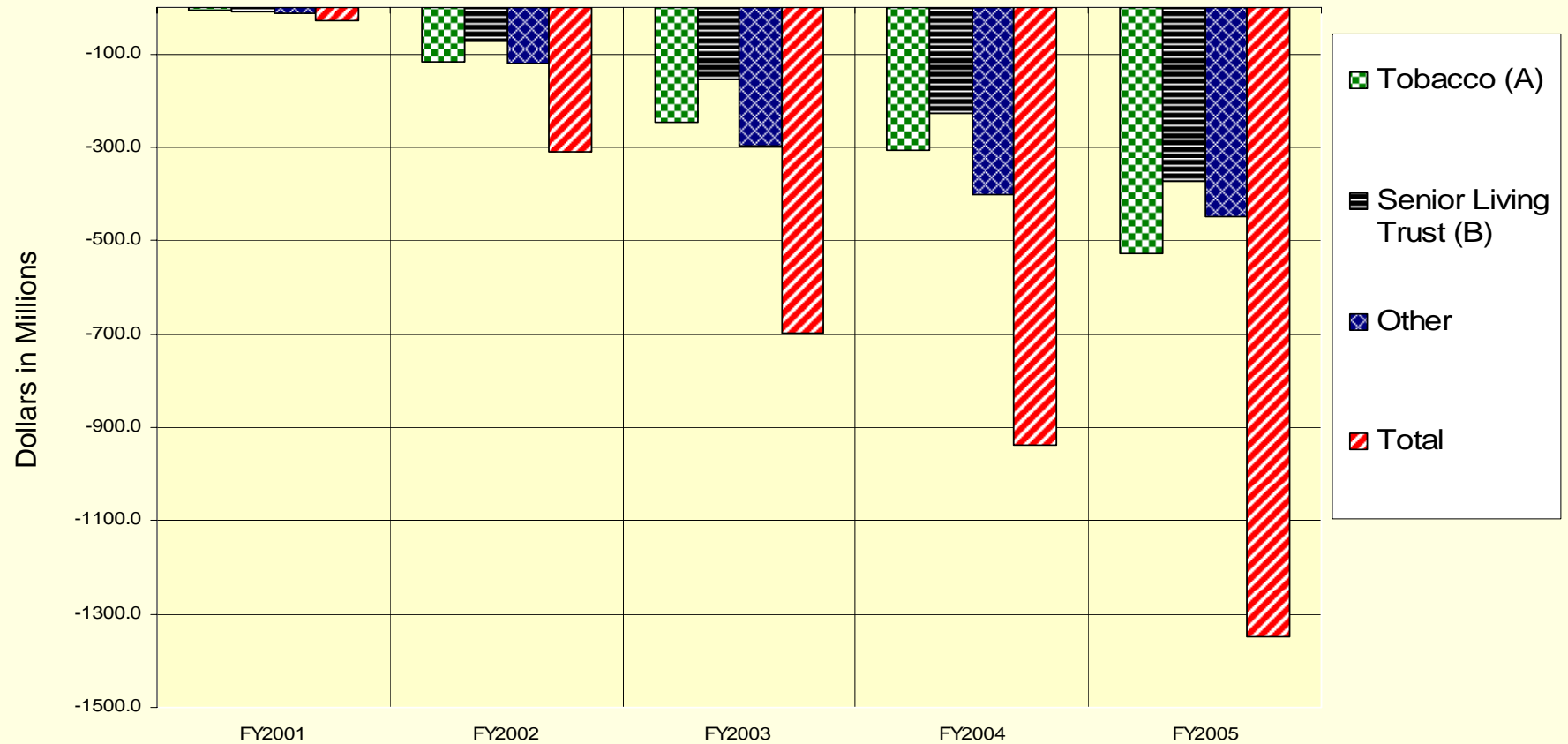


State of Iowa General Fund Repayments Required by Law



- (A) 2005 Legislative session changed law - \$141.8 million will no longer be repaid.
 (B) 2006 Legislative session - proposal to increase to \$300 million.

State of Iowa General Fund Other Revenue Transfers & Expenditures Shifts - Repayment Not Addressed or Not to be Made



- (A) 2005 Legislative session changed amount required by law to be repaid - additional \$141.8 million no longer required to be repaid.
- (B) 2006 Legislative session - proposal to require an additional \$182 million to be repaid.



When you are digging a hole and you can no longer see out, it's time to stop digging!

State of Iowa General Fund What Does It All Mean?

- In last 6 fiscal years spent alarming \$2 billion more than revenue stream
 - Over \$400 million cash surplus spent
 - \$1.6 billion taken from other funds and special accounts
- Borrowings at June 30, 2005 – over \$200 million (2006 Legislative session - to repay an additional \$182 million)
- Additional \$1.4 billion at June 30, 2005 – repayment not required by law
- Cash flow borrowing in Fiscal Year 2004, 2005 and 2006

State of Iowa General Fund 99% Spending Limitation

- Budget deficit in 2 of last 5 years ended June 30, 2005
- Fiscal Year 2003 deficit was \$46 million
- Lots of focus on Revenue Estimating Conference (REC)
- REC estimated revenue within + or -2% last several fiscal years
- Spending limitation of 99% - not real limitation
- Fiscal Year 2003 - \$2 million cushion on \$4.5 billion General Fund budget

State of Iowa General Fund Lack of Longer-Range Focus

Borrowings started in FY2001. This is FY2006, and no repayment plan has been developed.

What must be done?

- Develop and implement a repayment plan--now.

Good news – steps in the right direction!

- In 2005 session, repayment plans proposed for amounts taken from other funds and special accounts
 - House Republicans
 - “Swat Team” Bipartisan House File 519
- FY2005 surplus not all spent – Cash Reserve Fund repayment

State of Iowa General Fund Lack of Longer-Range Focus

Over 30 different funds and special accounts where repayment has not been required by law.

What must be done?

- Evaluate - viable without repayment? Priority program?
- Decide which amounts will be repaid – develop and implement repayment plan.
- Inform the taxpayers of Iowa which amounts will not be repaid and the consequences.

State of Iowa FY07 General Fund Budget Expenditure Adjustments (\$ in Millions)

	<u>Proposals</u>			
	<u>House Republicans'</u>	<u>Governor's</u>	<u>Final Budget</u>	
As presented	<u>\$5,247.9</u>	<u>5,306.3</u>	<u>5,296.5</u>	
■ <u>Repayment to SLTF (A)</u>	(25.0)	-	-	
■ <u>FY07 new ongoing revenues -</u> Tobacco tax increase shifted to and spent from other funds	-	129.9	-	
■ <u>Non-General Fund resources -</u> Expenditures shifted to other funds	257.6	227.6	366.8	
■ <u>Under-funded costs - likely</u> supplemental appropriation	<u>41.0</u>	<u>60.0</u>	<u>41.5</u>	
Total adjustments	<u>273.6</u> <u>5.2%</u>	<u>417.5</u> <u>7.9%</u>	<u>408.3</u> <u>7.7%</u>	
"True total expenditures"	<u>\$ 5,521.5</u>	<u>5,723.8</u>	<u>5,704.8</u>	
(A) Senior Living Trust Fund				

**State of Iowa
FY07 General Fund Budget
Shifted Expenditures
(\$ in Millions)**

	<u>Proposals</u>		<u>Final Budget</u>
	<u>House Republicans'</u>	<u>Governor's</u>	
<u>Non-General Fund resources:</u>			
Other expenditures shifted to:			
FY06 Surplus	\$ 102.7	119.8	159.9
Cash Reserve Fund	57.0	-	-
IowaCare Account	-	-	53.2
Tobacco Related Funds	35.3	32.8	55.9
Senior Living Trust Fund	40.0	40.8	74.0
Rebuild Iowa Infrastructure Fund	15.1	22.1	16.3
Environment First Fund	7.5	7.5	7.5
Vertical Infrastructure Fund	<u>-</u>	<u>4.6</u>	<u>-</u>
	<u>\$257.6</u>	<u>227.6</u>	<u>366.8</u>

**State of Iowa
FY07 General Fund Budget
Growth of "True Total Expenditures"
(\$ in Millions)**

	<u>Proposals</u>		
	<u>House Republicans'</u>	<u>Governor's</u>	<u>Final Budget</u>
<u>FY06:</u>			
Enacted budget	\$ 4,939.7	4,939.7	4,939.7
Shifted expenditures	398.9	398.9	398.9
Supplemental	<u>46.4</u>	<u>57.5</u>	<u>87.4</u>
Estimated "true total expenditures"	<u>\$5,385.0</u>	<u>5,396.1</u>	<u>5,426.0</u>
<u>FY07:</u>			
Estimated "true total expenditures"	<u>\$5,521.5</u>	<u>5,723.8</u>	<u>5,704.8</u>
<u>FY07 increase over FY06:</u>			
Amount	<u>\$ 136.5</u>	<u>327.7</u>	<u>278.8</u>
Percentage	<u>2.5%</u>	<u>6.1%</u>	<u>5.1%</u>

State of Iowa
FY07 General Fund Budget
Spending Gap
(\$ in Millions)

	<u>Proposals</u>		<u>Final Budget</u>
	<u>House Republicans'</u>	<u>Governor's</u>	
<u>As adjusted for all resources:</u>			
Total revenues	\$5,301.9	5,491.6	5,410.5
"True total expenditures"	<u>5,521.5</u>	<u>5,723.8</u>	<u>5,704.8</u>
Gap - spending in excess of revenues	<u>\$ (219.6)</u>	<u>(232.2)</u>	<u>(294.3)</u>
Spending gap as % of total revenues	<u>(4.1%)</u>	<u>(4.2%)</u>	<u>(5.4%)(A)</u>

(A) 6.3% before REC March 2006 revenue adjustment of \$46.2 Million

State of Iowa

FY07 General Fund Budget

Short-term Focus

- Notwithstands law to allow \$46.2 million of additional revenue by utilizing March 2006 REC estimate of FY07 revenue
- Reliance on FY06 projected surplus:
 - Utilizes \$159.9 million of projected FY06 surplus to fund property tax credits for FY07 budget
 - Continues dependence on balancing next year's budget with current year's projected unspent revenues
- Under-funds estimated Medicaid costs:
 - Under-funded FY07 estimated costs by \$25 million to \$52 million:
 - ❖ DHS, DOM, and LSA cost estimate \$784.2 million to \$811.2 million
 - ❖ Budget proposal provides \$759.2 million

State of Iowa
FY07 General Fund Budget
Looking Ahead
(\$ in Millions)

■ Multi-year Spending Increases:

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>
Student achievement/ teacher quality	\$35	70	105
High quality preschool	15	20	20
School Foundation Formula amendment	<u>6</u>	<u>12</u>	<u>18</u>
	<u>\$56</u>	<u>102</u>	<u>143</u>
■ <u>Social Security & pension</u> <u>tax revenue phase-out(A)</u>	<u>\$12</u>	<u>34</u>	<u>44</u>

(A) Increasing amounts each year to \$118 million in FY15

State of Iowa
FY07 General Fund Budget
Looking Ahead, Continued
(\$ in Millions)

	<u>Final Budget</u>
<u>Revenue growth needed for FY08:</u>	
Social security & pension tax revenue phase-out	\$ 22
Other LSA estimated revenue decreases built-in(A)	50
Student achievement/teacher quality, preschool, and foundation formula spending increases	46
Allowable growth of 4% for K-12 education	103
Full year vs. 3 months operations for Corrections Oakdale expansion	<u>15</u>
	236
FY07 shifted expenditures	<u>367</u>
Revenue growth needed	<u><u>\$603</u></u>
Revenue growth needed - as a percentage of estimated	<u><u>4.4%-11.1%</u></u>

(FY07 estimated revenue of \$5,411)

(A) Insurance premium tax reduction, utility tax phase-out, Iowa Values Fund credits, etc.

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State of Iowa General Fund Auditor Vaudt's Recommendations

- Expenditures must be in line with revenues, not revenues in line with expenditures
- Take serious steps toward implementing good budgeting principles
 - Align revenues and expenditures in same fiscal year
 - Eliminate reliance on one-time and limited-time resources for on-going expenditures
 - Incorporate a longer-range focus into the budgeting process

State of Iowa General Fund Auditor Vaudt's Recommendations (continued)

- Enhance clarity of the budget - set forth the "true total General Fund expenditures"
- Consider a two-year budget
- Develop a long-range plan (3 to 5 years) - set specific financial goals and establish timelines
- Implement a real spending limitation - 99% or 98%
- Set a timeline and repayment schedule for the monies borrowed from other funds and special accounts

State of Iowa

What Can You Do?

- Stay informed
- Communicate with the Governor and your Legislators:

Governor	515-281-5211
House	515-281-3221
Senate	515-281-3371

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State of Iowa
General Fund
Summary of Revenue Transfers and Expenditure Shifts
Cumulative Amounts for Fiscal Years 2001 Through 2006
(Dollars in Millions)

	<u>FY2001</u>	<u>FY2002</u>	<u>FY 003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Estimate</u> <u>FY2006</u>
Cumulative Revenues Transferred or Expenditures Shifted:						
Tobacco Related Funds	\$ 96.9	218.9	346.4	446.8	527.6	596.1
Senior Living Trust Fund	44.2	123.5	206.3	346.9	490.2	598.9
Cash Reserve Fund and Economic Emergency Fund	66.1	306.0	289.0	289.6	98.4	128.7
Hospital Trust Fund	-	7.0	26.0	55.0	92.5	115.4
Underground Storage Tank Fund	9.0	27.0	57.0	57.0	57.0	57.0
Environment First Fund	0.6	18.2	40.1	47.6	55.1	62.6
Rebuild Iowa Infrastructure Fund	-	9.8	31.2	42.5	43.8	44.3
Regents Demutualization	-	-	30.0	30.0	30.0	30.0
Reserve Fund Interest	-	15.6	20.8	28.4	28.4	28.4
Demutualization Unclaimed Property	-	-	-	26.7	26.7	26.7
Prison Infrastructure Fund	-	6.2	13.8	22.8	22.8	22.8
School Infrastructure Fund	-	-	22.0	22.0	22.0	22.0
AEA Balance Transfer	-	-	-	10.0	10.0	10.0
Insurance Premium Tax	-	-	10.0	10.0	10.0	10.0
Recreation Trails Fund	-	5.5	5.5	5.5	5.5	5.5
Ground Water Protection Fund	-	4.2	5.2	5.2	5.2	5.2
Waste Tire Fund	-	3.0	4.6	4.6	4.6	4.6
Vehicle Depreciation Fund	-	2.2	4.4	4.4	4.4	4.4
Enhanced Court Collections	4.0	4.0	4.0	4.0	4.0	4.0
Abandoned Property (Unclaimed Securities)	-	-	-	3.7	3.7	3.7
Terminal Liability Fund	-	3.5	3.5	3.5	3.5	3.5
DED - Strategic Investment Fund	-	3.0	3.0	3.0	3.0	3.0
Title Guarantee Fund	-	-	2.7	2.7	2.7	2.7
DED - Physical Infrastructure Assistance Fund	-	2.5	2.5	2.5	2.5	2.5
Risk Pool	-	1.5	1.5	1.5	1.5	1.5
Ag - Alternative Drainage Assistance Fund	-	1.1	1.1	1.1	1.1	1.1
Jury and Witness Fund	-	-	1.0	1.0	1.0	1.0
Brucellosis and Tuberculosis Fund	-	1.0	1.0	1.0	1.0	1.0
DNR - Snowmobile Fund	-	1.0	1.0	1.0	1.0	1.0
Victims Compensation Fund	-	1.0	1.0	1.0	1.0	1.0
All Terrain Vehicle Fund	-	0.8	0.8	0.8	0.8	0.8
DED - Value Added Agriculture Fund	-	0.3	0.3	0.3	0.3	0.3
Aviation Assistance Fund	-	0.3	0.3	0.3	0.3	0.3
Other Fund Transfers	-	1.7	2.6	3.5	3.5	3.5
	<u>\$ 220.8</u>	<u>768.8</u>	<u>1,138.6</u>	<u>1,485.9</u>	<u>1,565.1</u>	<u>1,803.5</u>

Source: Legislative Services Agency